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Afghanistan Situation Report

25X1

19 August 1986

79-81 IMC/CB

Top Secret

NESA M 86-20131CX SOVA M 86-20073CX 19 August 1986

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TOP SECRET AFGHANISTAN SITUATION REPORT 25X1 CONTENTS 25X1 FIGHTING AROUND HERAT RESUMES The Soviets are preparing for another offensive against guerrilla forces in Herat less than a month after a major counterinsurgent operation concluded, while resistance attacks in the capital slackened last week. 25X1 25X1 25X1 DRUG ABUSE AMONG SOVIET TROOPS IN AFGHANISTAN Although drug abuse reportedly is growing among Soviet soldiers in Afghanistan and there are some indications of Soviet troops being involved in drug smuggling, narcotics use and trafficking by Soviet forces are not vet major problems. 25X1 25X1 IN BRIEF PERSPECTIVE THE PRIVATE SECTOR IN A SOCIALIST ECONOMY 25X1 Afghan regime officials have recently affirmed the important role the private sector now plays in the nominally state-controlled economy, but they are committed to expanding the role of the public sector and will support private enterprise only so long as it serves their purposes. 25X1 19 August 1986 25X1 NESA M 86-20131CX i SOVA M 86-20073CX

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FIG	TING AROUND HERAT RESUMES	
	A multibattalion Soviet and Afghan combat operation is	
	imminent in Herat, less than a month after an extensive effort to clear the city of insurgent forces concluded.	
	concluded.	
	A Soviet task	
	force composed of several armor, infantry, and artillery companies was preparing to depart its garrison, while an Afghan battalion had arrived at	
	Herat airfield, probably for the operations.	2
		2
	Kabul experienced a respite from guerrilla rocket attacks last week, although security was still tight,	
	according to the US Embassy. In the Gardeyz area, US Embassy sources report deteriorating security	
	conditions with a strictly enforced night curfew.  a bomb at	
	Jalalabad airfield killed one person and wounded eleven	
	Afghan soldiers on 11 August. Press reports say the insurgents caused the explosion.	



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DRU	G ABUSE AMONG SOVIET TROOPS	25 <b>X</b> 1
	Soviet military commanders reassign troops between posts more frequently than usual to disrupt	25X1 25X1
	drug operations in outlying areas where drug abuse is a problem.  efforts to counter drug abuse,	25X1 25X1
	continue to be handled by local commanders.	25X1 25X1 25X1 25X1
	COMMENT: Drug smuggling by Soviet forces almost certainly accounts for a very small portion of the annual total of drugs produced in Afghanistan, and Soviet soldiers have been involved in a relatively low level of narcotics trafficking and abuse since 1979. We cannot independently confirm any extensive Soviet effort to reassign troops in Afghanistan to prevent them from becoming more actively engaged in the narcotics trade. Such an effort, moreover, would complicate Soviet military planning and reduce troop	
***	readiness and combat capabilities.	25X1 25X1
IN	BRI EF	25X1
		25X1 25X1
		25X1 25X1
	The Federal Republic of Germany recently expressed	25X1
	The I sacrat Republic of Sermany recently expressed	
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Israeli academics believe that the war in Afghanistan is having a substantial impact on Soviet internal affairs.  They view as significant the critical comments about the conflict that have appeared in the Soviet press. In their view, the "internal toll" of the war may eventually cause the USSR to "back out" of Afghanistan.  25X1  a new storage area being constructed at a Soviet army barracks at Bagram.  The almost-completed facility, located across a creek in an open area, includes at least 29 ammunition revetments. The new depot probably will replace the ammunition dump that was heavily damaged by insurgents in early July.  additional highway security along the Kabul-Ghazni road near Sheykhabad.  elements of a Soviet motorized rifle companywith nine BTR-60/70 armored personnel carriers and four tanks-had set up two checkpoints near the road. These security posts are meant to keep insurgents from returning to ambush sites they evacuated during a recent sweep		
program for transporting seriously wounded Afghans to Western hospitals, according to the US Embassy in Bonn. The West Germans already provide humanitarian aid to the Afghan resistance through the International Committee of the Red Cross and private voluntary organizations. In 1985 Bonn provided a total of 9 million deutsche marksapproximately \$4.32 millionto Afghan relief programs and plans to continue this level of support.		
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PERSPECTIVE			
AFGHANISTAN: THE PRIVATE	SECTOR IN A SOCIA	LIST ECONOMY	25 <b>X</b> 1
			25 <b>X</b> 1
Recent public statemen	nts by key Afahan	rogimo officials	
have emphasized the in			
plays in Afghanistan's	s nominally state	-controlled	
economy. The rhetoric			
announcements which co the public sector. We			
emphasis on private en	terprise is moti	vated by economic	
necessity and a desire	e for popular sup	port and does not	
represent any slacken	ing of commitment	to socialism on	
the part of the Kabul			
accounts for over 80 p domestic product and			
and forcign exchange			
however, the governmen	nt remains ideolo	gically committed	
to expanding the role support private enter	of the public sec	etor and will	
its purposes.	orrac only so long	as it serves	25 <b>X</b> 1
The State's Role in t	ne Economy		
The state began to tal	ce a more active	role in	
Afghanistan's traditio	onal private-sect	or economy in the	
late 1950s under the			
Prime Minister in the encourage modernization	on and the develo	ment of	
Afghanistan's industri	ial base through	the formation of	
state enterprises in	the industrial se	etormainly	
heavy industries based resources.	on minerals and	other natural	25X1
resources.			20/(1
The state's role in the	ne Afghan economy	further expanded	
after the coup in July	7 1973 in which Da	noud declared	
himself President of tenunciated a policy en	one Aighan Republi	.C. Daoud Le of the state.	
particularly in develo	ping heavy indus	tries. To	
promote this policy, t	oanks were nation	alized. With the	
takeover of the major 1975, a number of priv	commercial bank-	-Bank-i-Melliin	
majority shareholding	also became part	of the public	
sector. The governmer	nt also increased	its involvement	
in the economy through enterprises. The priv	takeovers of ail	ing or abandoned	
active in light indust	ries and handiers	afts as well as	
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in retail trade and transportation.	25X1
The Marxist Approach	
Despite regime claims that it intended to socialize completely the Afghan economy and a public emphasis on the virtues of a planned economy, the Marxist regime in Kabul has quietly pursued a policy of developing a mixed public and private economy. Immediately following the Communist coup of April 1978, the Taraki regime nationalized several large enterprises still in private hands and attempted to crack down on the private sector. These actions resulted in strong public protests and a serious drop in economic activity. In an effort to reverse these trends, the Karmal regimeinstalled during the Soviet invasion of December 1979abandoned a number of the previous	
government's anti-private enterprise policies.	05)//
only takeover since April 1978 has been a rayon textile	25X1
factory in 1985as a result of bankruptcy.	25 <b>X</b> 1
Although the Kabul regime has focused its attention on developing the public sector, it has continued to allow the private sector to function with relatively little interference and recently has publicly advocated an even greater role for private enterprise in the Afghan economy. On 5 July, for example, Afghan Communist Party leader Najibullah addressed a group of private entrepreneurs in Kabul and called on them to "step up their activities in supplying the required goods and in improving the country's economy and the living	
conditions of the people."	25 <b>X</b> 1
The Role of the Private Sector	
At present, the private sector accounts for 82 percent of Afghanistan's gross domestic product,  The agricultural sector—which accounts for more than 50 percent of national income—is still largely in private hands, and the	25X1 25X1
regime claims that the private sector accounts for more than 50 percent of total industrial production.  Although most large industrial and mining projects are under state control, a number of light industries and most of the handicraft industries, such as carpetweaving, remain in the private sector,  Between 75 and 85 percent of	25X1 25X1
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	all domestic retail trade and about 45 percent of	
	foreign trade are carried out by private firms, and the regime estimates that 70 percent of the country's	
	transport vehicles are privately owned and operated.	
		25 <b>X</b> 1
	The private sector also provides the government with	
	much needed revenue and foreign exchange. The regime relies on taxes collected from businesses in Kabul and	
	on import duties as two important sources of revenue,	0.514
	according to press reports.	25X1
	The government suffers from a shortage of foreign	
	exchange because of chronic balance-of-payments deficits. It has turned to the money bazaars to supply	
	it with the funds necessary to finance foreign trade,	05)/4
	continue to operate with relatively few restrictions	25 <b>X</b> 1
	under the current regime.	25X1
	free to set daily market exchange rateswhich they	25 <b>X</b> 1
	determine by listening to foreign radio broadcasts of	
	international currency ratesand to open foreign currency accounts in banks abroad. Most of the union's	
	110 members have partners in Dubai who provide them	
	with links to Pakistan. In return, the money changers supply the government with foreign exchange at a	
	preferential rate. We believe that regime data	
	understate the extent of private-sector economic activity because of widespread bartering, smuggling,	
	and other unofficial economic transactions that are not	
	reported	25 <b>X</b> 1
	Regime Support for Private Sector	
	In a recent address before the Economic Consultative	
	Council, Afghan Prime Minister Keshtmand announced the	
	regime's plans to adopt a new law for private investment. While giving few specifics, he asserted	
	that it would include measures designed to stimulate	
	and regulate private enterprise. The regime is particularly interested in attracting private	
	investment in industry and in increasing the use of	
	private transport vehicles to carry state goods, especially to the provinces.	25X1
		25/(1
	The government is currently trying to encourage private investment in industry through the use of various	
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incentives:				
privat	ely owned fact	ories are exemp	ot from taxes	
	to their firs			
	ion, according	to official At	ighan press	
statem	ients.			
intere	st rates on lo	ans extended by	z state banks	
	ivate investme			
6 perc	entabout hal			
borrow	ers,			25 <b>X</b> 1
credit	s are provided	hy the state 1	to private	
	ry; during 198			
millio	n was extended	,		25 <b>X</b> 1
				25 <b>X</b> 1
The regimets	nnofonantial t	or and anadit r		
	preferential tagned to increas			
	rgeted areas.	private inv	25 thiere Th	25 <b>X</b> 1
		·		
In addition,	Kabul has give	n prominence to	private Caraultatina	
Council (FCC)	and traders of . The ECCan	n the Economic	Consultative	
	ncil of Minist			
February to e	xpand the role	of private bus	sinessmen in	
the developme	nt of economic	policy, accord	ding to	
official gove	rnment press re; its expansion	eports. But the	ne council has	
broaden the r	egime's base of	i was probably f support. The	regime has	
	ed the creation			
	prises with sta		on not to	
exceed 40 per	cent, according	g to the IMF.		25 <b>X</b> 1
Kabul's Motiv	PS			
IIII B MOCI V				
We believe th	e Marxist regin	ne's current su	ipport for	
	prise is motiva			
	regime has nei e economy nor			
to regulate t	he private sec	tor effectively	The	
proposed new	private investr	nent law may be	e an attempt	
by the regime	to establish :	some degree of	control over	05.74
this sector.				25X1
The regime al	so wants to cor	npensate for re	educed Soviet	
economic aid	to Afghanistan	. Such aid has	s been cut	
	ately \$703 mil			
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	in 1985, the latest year that data are available. Furthermore, this aid has been targeted primarily at investment in infrastructure and mineral exploration and development. As a result, the regime suffers from a shortage of investment capital for industrial projects necessary for economic development.  Kabul's growing public support for private enterprise may also be an attempt to expand the regime's popularity and enhance its legitimacy. The government has tried to gain cooperation from important economic groups in Afghan society, such as small businessmen and traders. In June, for example, Afghan Communist Party leader Najibullah announced the regime's support "for	25.
	private investors and national traders" and claimed it would "provide all necessary facilities in this area." He called on them "to put their capital into circulation for the prosperity of Afghanistan and the construction of a new society."  In recent months, the regime has also tried to gain popular support by portraying its policies as	25)
	nationalist rather than Communist. Rhetoric in favor of private investment may be an attempt to reinforce this notion.  Outlook	25.
	The regime's policies are unlikely to encourage significant private investment in large-scale industries. The poor security conditions as well as fear that the regime will eventually nationalize industries or otherwise crack down on the private sector in the future make such large investments unattractive to private investors. However, we expect private enterprise to continue to play a major role in sectors such as retail trade, transportation, and handicrafts, where investment costsand therefore risksare lower. Smuggling and other unofficial economic activities will also continue to flourish. If the regime were to consolidate its political control, we believe it would try to manipulate the private sector and eventually eliminate it in favor of a state-run economy.	25.
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